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March 31, 2004

The Honorable William H. Donaldson
Chairman
Securities and Exchange Commission
450 Fifth Street, N.W.
Washington, D.C. 20549

Dear Chairman Donaldson:

We are writing to express our concerns regarding the Securities and Exchange Commission's Proposed Rule: Amendments to Rules Governing Pricing of Mutual Fund Shares (Release No. IC-26288). The Commission's proposal mandates that mutual fund share orders be received by the fund, its transfer agent, or a registered clearing agency before 4:00 p.m. E.S.T. for same-day pricing. Although it is unquestionably a well-intentioned effort to prevent late trading in mutual fund shares – one of the most egregious violations of investor trust we have ever witnessed – we believe this proposal will actually confer additional harm upon innocent mutual fund investors and dampen their confidence in the markets by unduly limiting their investment decisions.

The Commission's proposal will disadvantage mutual fund shareholders holding their shares through retirement plans and investing through intermediaries offering bundled services. Because of the complexity of aggregating and pricing mutual fund shares of these investors, with a hard 4:00 close retirement plan administrators and intermediaries would be forced to impose transaction cut-off times as early as 12:00 p.m. E.S.T. By confining their trading period, this proposal would effectively relegate these investors to a second-class status, a status to which many of these same investors were unwittingly and illegally subjected while the late trading was occurring and now, ironically, a status the Commission may codify in its attempts to prevent such unlawful behavior.

Discrimination against this large class of investors (nearly 90% of mutual fund orders are received by fund companies through intermediaries) as well as the retirement plans and intermediaries who serve them will lead to market distortions, both by limiting the investing period of a class of investors and by encouraging investing directly through fund companies (where the trading period will be open through the market close) rather than through intermediaries. Shareholders will make less efficient investment decisions as they will not be able to act on the most current information. Furthermore, they will be prevented from withdrawing or

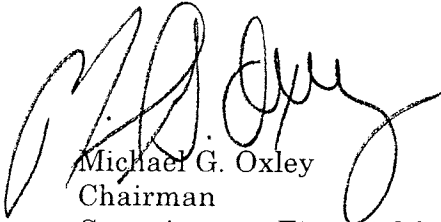
otherwise changing their investment positions even when they wish to do so as a result of market conditions or portfolio planning needs.

We encourage the Commission to consider more fully alternative proposals that can prevent late trading without limiting the investment decisions of mutual fund shareholders. One possible option, included in H.R. 2420, the Mutual Funds Integrity and Fee Transparency Act, which was reported by the Financial Services Committee and passed the House 418-2 this past November, would require that all trades be received by 4:00 p.m. at either a mutual fund company or at an intermediary. This legislation would require that intermediaries implement tamper-proof, verifiable systems and procedures subject to annual audits to prevent late trading. We are pleased that the Commission has deemed this approach worthy of further discussion by including it in its proposed rule as an alternative to the hard 4:00 close.

In sum, we believe the proposed hard 4:00 close is misguided in its undue restriction on the investment decisions of many fund shareholders and their service providers and might actually have the unintended effect of reducing investor confidence. We urge the Commission to reconsider this proposal.

Thank you for your consideration of this important matter.

Sincerely,



Michael G. Oxley
Chairman
Committee on Financial Services



Richard H. Baker
Chairman
Subcommittee on Capital Markets,
Insurance and Government
Sponsored Enterprise